

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 9398

INFO ALL EC CAPITALS 973

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION ADOPTS A TAX ACTION PROGRAM

REFS: A. EC BRUSSELS A-230

B. EC BRUSSELS 6807

C. EC BRUSSELS 1208

1. BEGIN UNCLASSIFIED, BEGIN SUMMARY: THE EC COMMISSION HAS ACCEPTED A MEDIUM-TERM TAX PROGRAM WHICH OVER THE NEXT THREE YEARS CALLS FOR EC ADOPTION OF OVER 14 TAX DIRECTIVES. THESE PROPOSALS ARE MAINLY DESIGNED TO IMPROVE TAX HARMONIZATION, EQUITY AND ENFORCEMENT, AND FREEDOM OF MOVEMENT. IN THE LONG TERM THE COMMISSION CONTINUES TO ASK FOR FULL HARMONIZATION OF EC TAXES BUT THE ACTION PROGRAM RECOGNIZES THAT THIS IS NOT POLITICALLY REALISTIC AT THE PRESENT TIME. IN RECENT YEARS THE COUNCIL HAS NOT ACTED ON ANY OF THE COMMISSION'S MAJOR TAX PROPOSALS AND IT WILL BE SOMETIME BEFORE MOST OF THESE PROPOSALS ARE ADOPTED. END SUMMARY.

2. THE EC COMMISSION ADOPTED ON JULY 23 A "TAX

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ACTION PROGRAM" WHICH SETS TARGET DATES OVER THE

NEXT THREE YEARS FOR COUNCIL DECISIONS ON SPECIFIC TAX MEASURES. (COPIES OF THE PROGRAM HAVE BEEN SENT TO INTERESTED WASHINGTON AGENCIES, INCLUDING RPE/CLARK.) THE PROGRAM WAS DRAWN UP AFTER CONSULTATIONS WITH MEMBER STATE TAX AUTHORITIES AND WITH INTERESTED PRIVATE PARTIES SUCH AS TRADE UNIONS AND PROFESSIONALS. IT RECOGNIZES THAT COMPREHENSIVE REFORM AND COMPLETE HARMONIZATION OF MEMBER STATE TAXES ARE NOT REALISTIC GOALS AT THE PRESENT TIME. IN FACT, IN RECENT YEARS NONE OF THE COMMISSION'S MAJOR TAX PROPOSALS HAS BEEN ACTED UPON BY THE COUNCIL.

3. MEASURES OVER THE NEXT THREE YEARS: THE COMMISSION DOES NOT WANT TO INTERFERE WITH MEMBER STATE USE OF TAXES AS ECONOMIC POLICY TOOLS. ITS PROPOSALS CONSEQUENTLY AVOID SETTING TAX RATES AND CHARGES AND INSTEAD CONCENTRATE ON LIBERALIZING THE MOVEMENT OF GOODS, PERSONS AND CAPITAL WITHIN THE EC.

A. VAT: IN JUNE 1973 THE COMMISSION PROPOSED A SIXTH DIRECTIVE TO ESTABLISH A UNIFORM BASIS OF ASSESSMENT FOR THE VALUE ADDED TAX. ACTION IS NEEDED IF THE EC BUDGET IS TO HAVE ITS "OWN RESOURCES" BY JANUARY 1978. THE COMMISSION PROPOSES TO SIMPLIFY VAT RULES FOR INTRA-EC TRADE AND TO HARMONIZE PUBLIC WORKS PROCUREMENT IN THE EC. IT ALSO WANTS TO SIMPLIFY TAXATION OF INTRA-EC MAIL ORDER SALES.

B. EXCISE DUTIES: THE AIM WILL BE TO HARMONIZE THE STRUCTURE OF EXCISE DUTIES AND PREVENT THE INTRODUCTION OF NEW DUTIES WHICH COULD IMPEDE FREE MOVEMENT OF GOODS. THE COMMISSION WANTS ACTION ON DIRECTIVES CONCERNING BEER, WINE, SPIRITS AND MINERAL OILS. THE COMMISSION ALSO WANTS A DECISION ON DEFINING AND CLASSIFYING GROUPS OF MANUFACTURED TOBACCO (SEE REF A) AND ON THE STRUCTURE OF THE EXCISE DUTY ON CIGARETTES. A DIRECTIVE WILL BE PROPOSED TO HARMONIZE INDIRECT TAXES ON SECURITY TRANSACTIONS; THE LONG TERM LIMITED OFFICIAL USE

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OBJECTIVE IS TO ABOLISH THESE TAXES. THE COMMISSION PLANS TO PROPOSE A DIRECTIVE TO CORRECT DOUBLE TAXATION OR NON-TAXATION OF INSURANCE SERVICE CHARGES.

C. DIRECT TAXES: THE COMMISSION CALLS FOR ACTION ON ITS PROPOSED COMMON TAX ARRANGEMENTS FOR MERGERS, DIVISIONS AND CONTRIBUTIONS OF ASSETS BETWEEN COMPANIES IN DIFFERENT MEMBER STATES. THE COMMISSION

FAVORS A 25 PERCENT WITHHOLDING TAX ON BOND INTEREST PAYMENTS, BUT IT WILL DELAY THIS PROPOSAL UNTIL AFTER THE EC HAS ADOPTED A SYSTEM FOR CONTROLLING EXTERNAL CAPITAL MOVEMENTS. THE COMMISSION IS STUDYING THE ASSESSMENT BASIS OF CORPORATE PROFIT TAXES. IT HAS JUST PROPOSED A DIRECTIVE TO HARMONIZE TAXES ON STOCK DIVIDENDS (SEE REF B). THE COMMISSION HAS NO CURRENT PLANS FOR THE HARMONIZATION OF PERSONAL INCOME TAXES BUT IT INTENDS TO EXAMINE CERTAIN EQUITY PROBLEMS.

D. INTERNATIONAL TAX EVASION AND AVOIDANCE: FOLLOWING UPON A COUNCIL RESOLUTION (REF C) THE COMMISSION NOW PLANS TO PROPOSE: 1) MEMBER STATE EXCHANGE OF INFORMATION; 2) MEMBER STATE COOPERATION IN TAX INVESTIGATION; AND 3) EC COOPERATION TO PREVENT TAX EVASION. THE COMMISSION ALSO PLANS TO DRAW UP COMMON RULES FOR TRANSFER PRICING AND TO PROPOSE ELIMINATING POSSIBLE DOUBLE TAXATION OF CORPORATE PROFITS IN CERTAIN CASES. IT WILL ALSO SUGGEST WAYS TO IMPROVE TAX COLLECTION.

E. INDIVIDUAL TAX EXEMPTIONS: THE COMMISSION WANTS TO EXTEND AND INCREASE EXEMPTIONS FOR GOODS IMPORTED BY TRAVELLERS. THE COMMISSION WILL SUBMIT DIRECTIVES THIS YEAR CONCERNING THE IMPORTATION OF PERSONAL EFFECTS.

F. CONSULTATION PROCEDURES: THE COMMISSION ASKS MEMBER STATES TO INFORM IT IN ADVANCE OF MEASURES THAT MIGHT AFFECT TAX HARMONIZATION. IT PLANS TO PROPOSE NEXT YEAR A SYSTEM OF PRIOR EXAMINATION OF AND CONSULTATION ON PROPOSED MEMBER STATE TAX MEASURES. LIMITED OFFICIAL USE

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4. LONG-TERM MEASURES: THE COMMISSION SAYS THE ABOVE PROPOSALS ARE AN INADEQUATE BASIS FOR ECONOMIC AND MONETARY UNION. IT THUS PROPOSES EVENTUALLY HARMONIZING EC VAT RATES AND EXCISE DUTIES. MEMBER STATE TAX INCENTIVES TO FIRMS ALSO NEED TO BE BROUGHT INTO LINE.

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5. BEGIN LIMITED OFFICIAL USE, BEGIN COMMENT:
COMMISSION TAX OFFICIALS BELIEVE THE ACTION PROGRAM
SETS REALISTIC AND ATTAINABLE PRIORITIES. THE
COUNCIL, HOWEVER, HAS NOT ACTED ON ITS TAX PROPOSALS
BECAUSE THE MEMBER STATES ARE UNWILLING TO GIVE UP
THEIR CONTROL OVER TAX POLICY. THIS SHORT-TERM
PROGRAM CONSEQUENTLY PROPOSES MEASURES WHICH
COMPLEMENT NATIONAL CONTROL RATHER THAN RESTRICT
IT. THE PROGRAM IS AN INDICATION OF COMMISSION
RECOGNITION THAT ECONOMIC AND MONETARY UNION WILL NOT
BE OBTAINED THROUGH LEGISLATED MEASURES THAT IMPOSE
HARMONIZATION AND INTEGRATION ON THE MEMBER STATES.
THE COMMISSION REALIZES THAT THE MEMBER STATES WILL
DIRECT THEIR OWN ECONOMIC POLICIES AND TO DO THIS
THEY NEED TO HAVE FULL CONTROL OVER FISCAL POLICY.
THE COMMISSION NOW PLANS TO PROCEED TOWARD EC
TAX INTEGRATION BY A SERIES OF SMALL STEPS. IT HAS
NOT ABANDONED, HOWEVER, ITS LONG TERM GOAL OF FULL
TAX HARMONIZATION, BUT IT REALIZES THIS WILL TAKE
MUCH MORE TIME THAN ORIGINALLY PLANNED.

6. THE COUNCIL IS NOT LIKELY TO ACT PROMPTLY ON
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THIS PROGRAM. FOR EXAMPLE, WHEN THE FINANCE COUNCIL
TOOK UP THE VAT HARMONIZATION DIRECTIVE LAST

DECEMBER, MOST OF THE MINISTERS WALKED OUT AND THERE WERE NO SUBSTANTIVE COMMENTS. THE DRAFT DIRECTIVE WAS REFERRED BACK TO THE EC PERM REPS WHERE IT HAS Languished for several years. There are, however, more modest proposals such as a directive on tax evasion and avoidance that could be adopted relatively quickly. END COMMENT. MORRIS

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